

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-_____

IN RE:

Joint Application of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Approval to Transfer Certain Intercompany Assets and for Related Accounting Authority)	Joint Application for Authority to Transfer Intercompany Assets and For Approval of Accounting Authority
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Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (collectively “Duke” or “Company”) hereby jointly apply to the Public Service Commission of South Carolina (“Commission”)—pursuant to S.C. Code Ann. §§ 58-27-1300, 58-27-1540, and 58-27-2090; S.C. Code Regs. 103-823; and other applicable rules and regulations of the Commission—for approval of certain intercompany transactions solely between DEC and DEP for rotatable fleet spares (“RFS”), a discrete class of assets described more fully herein. Duke seeks to coordinate and optimize the management of their respective RFS inventory and create potential maintenance outage cost savings through the transfer of RFS parts between them at fair market value. Duke also seeks approval of the related accounting treatment. In order to account for the difference between the transfer price (i.e., market value) and cost of some of the RFS Assets, Duke also requests authority to use Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts account 182.3 (Other Regulatory Asset) and account 254 (Other Regulatory Liability) as described herein.

The Commission has previously approved similar transfers of RFS and the associated accounting treatment as being consistent with the public interest.¹ The request for relief set forth within the Application would not involve a change to any of Duke's retail rates or prices at this time or require any change in any Commission rule, regulation, or policy. In addition, the issuance of the requested accounting order would not prejudice the right of any party to address the prudence of these costs in the DEC's or DEP's next general rate case proceeding.

In support of this Petition, DEP and DEC respectfully show the Commission the following facts and petitions the Commission for the following relief:

Name and Address

1. The correct name and post office address of DEC are:

Duke Energy Carolinas, LLC
Post Office Box 1321
Charlotte, NC 28201

2. The correct name and post office address of DEP are

Duke Energy Progress, LLC
Post Office Box 1551
Raleigh, NC 27602-1551

Notices and Communication

3. The name and addresses of the attorneys of Duke who are authorized to receive notices and communications with respect to this petition are:

¹ Order Authorizing Intercompany Asset Transfer, Order No. 2016-523, Docket No. 2016-252-E (Aug. 2, 2016); Direct on Joint Application of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Authority to Transfer Intercompany Assets and for Approval of Accounting Authority, Order No. 2015-630, Docket No. 2015-293-E (Aug. 26, 2015).

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and

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Description of the Companies

4. DEC and DEP are engaged in the generation, transmission, distribution, and sale of electric energy at retail in South Carolina and North Carolina. DEC also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the FERC.

5. The operations of DEC and DEP in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

Intercompany Transfer of Assets

6. While the used and useful lives of Duke's generating units often extend over 30 years, certain rotatable parts must be replaced substantially more often. For example, both DEC and

DEP have constructed multiple combustion turbine units² in the past decade, which require certain rotatable turbine parts to be replaced approximately every three years. Some RFS components costs exceed \$1 million. The maintenance of DEC's and DEP's respective generating fleets require the companies to maintain access to rotatable spare parts for planned routine maintenance outages and potential unplanned outages. Thus, the Company must incur the cost of holding RFS in inventory or be able to access such new or refurbished parts relatively quickly to execute planned outages or respond to unplanned outages.

7. Within the industry, normal utility practice is to refurbish rotatable parts at least once, and in most cases more than once, during the rotatable part's lifetime. The rotatable part is then reinstalled on the same or another generating unit for the next usage over the useful life prior to salvage. Where a sufficient need exists, it is also normal utility practice to hold new and/or refurbished rotatable spare parts in inventory so that they are available for use by the fleet. Through recent collaboration to establish best maintenance practices, the Company has determined that DEP and DEC should continue to maintain separate RFS inventories at this time. However, if increased coordination of inventory can be achieved, the combined RFS inventory of DEC and DEP can be reduced, which results in material cost savings for DEC and DEP and their ratepayers.

8. S.C. Code Ann. § 58-27-1300 provides that an electric utility must obtain Commission approval prior to transferring or consolidating utility property with a fair market value greater than \$1 million. DEC and DEP hereby apply to the Commission for permission to transfer a set of 3rd Stage Buckets from DEC's Dan River Combined Cycle Station to DEP's Sherwood H. Smith, Jr. Energy Complex in order to optimize their respective spare parts inventories. Duke

² DEC's and DEP's combined generation fleets include 18 combustion turbine units in the Carolinas that are designed based upon the General Electric 7FA model equipment package.

proposes an inventory to inventory transfer at the fair market value of \$1,442,857 from DEC to DEP.³ The Companies assert that this request is in the public interest, as it would benefit the transferring utility by allowing efficient deployment of its RFS Assets without penalizing the purchasing utility by requiring the transfer of used components to occur at the materially higher net book value, which in this case is \$1,988,040. DEC would be able to transfer RFS Assets for which it has no immediate need, and DEP would be able to obtain assets it needs at a fair value. This increased coordination of inventory would result in the combined RFS inventory of DEC and DEP being reduced which would result in material costs savings for DEC and DEP and their ratepayers.

9. If DEC and DEP are allowed to evaluate the third-party purchases and the asset transfer between themselves using the comparable market value of the refurbished RFS part, this would send the purchasing utility a more appropriate price signal and would also allow DEC and DEP to optimize the use of their respective RFS inventories for the benefit of their respective customers.

Accounting Treatment

10. If transfers of used RFS Assets are made at market value, the purchasing utility and the selling utility will have to account for the difference between the transfer price (i.e., market value) and the book value of the RFS Asset. DEC and DEP propose that the difference between the transfer price and cost be accounted for by the purchasing utility using FERC Uniform System of Accounts account 254 (Other Regulatory Liability) and by the selling utility using FERC Uniform System of Accounts account 182.3 (Other Regulatory Asset). The fair market value of

³ See Exhibit 1.

these assets is lower than the book value; therefore, that is the value DEC and DEP will base their accounting treatment on, provided the Commission approves this request.

11. DEC and DEP propose to record acquired RFS assets in its plant, accumulated depreciation, and inventory accounts at net book value. DEP will also record a regulatory liability of (\$545,183) for the difference between the net book value recorded and the market value paid, which will be amortized to reduce the cost of service over a relatively short period of time. DEC will remove the RFS Assets from its rate base accounts at net book value, but will record the difference between those amounts and the payment received as a regulatory asset value of \$545,183, which will be amortized as an increase to the cost of service over a similarly short time period. This treatment will remove a disincentive for the recipient in any given case to engage in an affiliate transaction likely to be economic, and will result in a more economic use of the combined RFS assets of the two utilities. The proposed accounting and cost of service treatment is consistent with appropriate ratemaking practices. The recipient and its ratepayers will not be required to bear more than the lower of cost or market value for acquired rate base assets and the transferor and its ratepayers will not be required to pay more than the original cost less the proceeds received from the recipient.

12. Pursuant to S.C. Code Ann. § 58-27-1540, Duke requests that the Commission approve the use of FERC accounts 254 and 182.3 for the used RFS asset transfers at market value. DEC and DEP submit there are good reasons to grant this request. First, DEC and DEP are required by Section 5.7 of the Regulatory Conditions to file Annual Reports of Affiliated Transactions in South Carolina. The most recent revised Annual Report of Affiliate Transactions was filed with the Commission on May 30, 2017 in Docket No. 2011-158-E. Schedule 10 of the Annual Report contains the mutually agreed list of specific RFS assets currently eligible. Allowing

this accounting treatment will not diminish the Commission's authority to review the prudence of the transfers or the appropriateness of the pricing in future proceedings including rate-making dockets. Thus, there is no disadvantage to allowing Duke to properly account for the at-market transfers.

13. The request does not involve a change to any DEC or DEP rate or tariff. As a result, Duke submits neither notice to the public nor a hearing is required.

WHEREFORE, for the foregoing reasons, and for good cause shown, the Company respectfully requests that the Commission issue an order allowing DEC and DEP to transfer the RFS Assets between themselves and to approve the use of Uniform System of Accounts accounts 182.3 and 254 for purposes of accounting where appropriate.

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and

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Attorneys for Duke Energy Carolinas, LLC and
Duke Energy Progress, LLC

Columbia, South Carolina
April 5, 2018

Exhibit 1

Component	Cat / Item #	Sending Location	Inventory Book Value	Depreciation, 3.49% (Life Rate = 3.17%, COR Rate = 0.32%) for FERC Acct. 343 – Dan River. (Dec. 2012-Mar 2015, 28 mos.)	Net Book Value	Intervals Used	OEM Intervals	Intervals Remaining	Fair Value (Based on GE Recommended Life)	% Difference b/w FV and NBV	DEC Regulatory Asset	DEP Regulatory Liability	Loadings on Inventory Issue	SEC-2 MAJOR, CAP PROJECT
S3B	1515856 (91), 1515857 (1)	Dan River	\$2,164,285	(\$176,245)	\$1,988,040	1	3	2	\$1,442,857	-27%	\$545,183	(\$545,183)	\$200,000	\$1,642,857